Response to FRC paper Technological Resources: Using technology to enhance audit quality
7 July 2020

Question 1: Do you agree that the increasing use of technological resources, including AI and other advanced tools, enhances the quality of audits, beyond the benefits derived from efficiency gains. If so, what are the indicators of enhanced quality?

Yes, we are of the view that technology and other advanced tools are useful to improve the quality of audits, and not necessarily as a means to reduce audit costs. We consider the indicators of enhanced quality to be:

1) Reduced detection risk
2) More targeted review of the key areas
3) Better understanding of the client's operations and controls.
4) Coverage of a greater proportion of transactions.

Question 2: Do you believe that challenger firms are currently at a disadvantage in the use of new technology? If so, what remedies would you suggest?

Yes, because the use of new technology requires significant capital and human investment. The disadvantages could be addressed as follows:

1) The existing providers of audit software and audit programmes could incorporate a certain element of advanced data tools in their software.
2) The supervisory bodies should be more engaged in leading the adoption of new technology by the smaller member firms
3) Promoting an open-source platform would promote innovation and collaboration.

Question 3: Other than investment, what do you believe are the key challenges auditors face in the increasing utilisation of automated tools and techniques within the audit process? Again, what remedies would you suggest to overcome these challenges?

We see the key challenges as being

1) the ability of auditors to scale up their own skills and adapt to new technology
2) the risk of over-reliance on software without understanding the underlying issues
3) distraction from the key audit matters, as auditors have a multitude of data reports to deal with

Training and ease of use would help address the issue.

Question 4: Does the current assurance model or the auditing standards represent an obstacle to technological innovation? If yes, then what specific standards, objectives, requirements or guidance cause practitioners particular difficulties?

We think the current assurance model is flexible and robust enough to adapt for technological innovation. However clarity on certain procedures such as data extraction and data ingestion would be useful.

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Question 5: Do you believe the current level of training given to auditors – both trainees and experienced staff – is sufficient to allow them to understand and deploy the technological resources being made available?

No.

Question 6: What firm-wide controls do you believe are appropriate to ensure that new technology is deployed appropriately and consistently with the requirements of the auditing standards, and provides high quality assurance which the firm can assure and replicate more widely?

We think the appropriate controls would be
1) Recognising that new technology is a tool, not the solution, to achieve high quality audits. Audit judgement is still paramount and any advanced tools are unlikely to replicate an experienced auditor's judgement
2) Documentation of audit steps when new technology is used.

Question 7: Are you aware of the use of new technologies in analysing and interpreting information provided by auditors – including, for example, auditor's reports? If yes, then do you foresee implications for the form and content of auditor's reports?

No

Question 8: What do you see as being the main ethical implications arising from the greater use of technology and analytics in an audit?

The main issue is over-reliance on the software

Question 9: Do you believe there is value in the UK having consistent data standards to support high quality audit, similar to that developed in the US?

This should be done globally, but a UK solution may be a step towards this.

Question 10: Do you agree that threats to auditor independence may arise through the provision of wider business insights (not as part of the audit itself) drawn from the interrogation company data? If so, what measures would mitigate this risk from crystallising?

This could be a significant issue, which should be addressed through the Ethical Standard. Data obtained through audit procedures should not generally be available for other uses.

Question 11: Do you agree that audit documentation can be more challenging when an audit has been conducted with automated tools and techniques? If so, please identify specific areas where is a problem.

Yes. There is a risk of over-reliance on
1) proforma reports produced by the advanced tools and key underlying issues may be missed or mis-understood.
2) Automated analysis of data without understanding their context and relevance.

All audit documentation should be "presented" with ease of comprehension and review as a prime objective. The working papers should clearly explain the source of all data, together with why and how reliance has been placed on it. The extent to which this has been done should be a key factor in assessing the quality of the work done and should feed into the appraisal system.

Question 12: Have you encountered challenges in dealing with the volume of 'exceptions' arising from the use of more complex or comprehensive data analytic procedures?

No, as we haven't yet used the more complex analytic procedures.

Question 13: Do you agree that the use of third-party technology vendors raises potential ethical challenges for auditors and, if so, which potential safeguards would you see as effective in reducing this threat to an acceptable level?

Not answered

Question 14: Do you agree that the increasing usage of third-party providers presents challenges in audit documentation and, where relevant, how have you dealt with this?

See answer to question 11